



ORIGINAL



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A subsidiary of Pinnacle West Capital Corporation

Barbara Klemstine
Director
Regulation & Pricing

Tel. 602-250-4563
Fax 602-250-3003
e-mail Barbara.Klemstine@aps.com

Mail Station 9708
PO Box 52034
Phoenix, Arizona 85072-2034

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May 4, 2006

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Commissioner Kristin K. Mayes
1200 West Washington Street
Phoenix, Arizona 85007

AZ CORP COMMISSION
DOCUMENT CONTROL

2006 MAY -4 P 4: 54

RECEIVED

Re: FERC Order Revoking APS Market-Based Rates in the APS Control Area
(Docket No. E-01345A-05-0827)

Dear Commissioners:

As a follow-up to my letter on May 1st, I would like to inform the Commission that on May 3rd the Federal Energy Regulatory Commission approved the Pinnacle West Capital Corporation application for authority to issue and sell securities, pursuant to Section 204 of the Federal Power Act. The order is attached for your convenience.

If you have any questions, please give me a call.

Sincerely,

Barbara Klemstine

Cc: Brian McNeil
Ernest Johnson
Matt Rowell
Chris Kempley
Janice Alward
Parties of Record in Docket

Attachment

UNITED STATES OF AMERICA 115 FERC ¶62,134
FEDERAL ENERGY REGULATORY COMMISSION

OFFICE OF ENERGY MARKETS AND RELIABILITY

In Reply Refer To:
EM-5.5
Docket No. ES06-39-000

May 3, 2006

Pinnacle West Capital Corporation
Attention: Mr. Antoine P. Cobb
Senior Attorney
Two Arizona Center – Mail Station 8695
400 North 5th Street
Phoenix, AZ 85004-3992

John D. McGrane
Morgan, Lewis & Bockius LLP
1111 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Messrs. Cobb and McGrane:

On April 20, 2006, you filed an application filed pursuant to section 204 of the Federal Power Act, 16 U.S.C. § 824c (2000) in the above-referenced docket. The application requests authorization for Pinnacle West Capital Corporation (Pinnacle West) to: (1) issue up to \$350 million in equity securities and up to \$350 million in long-term and short-term debt securities during the period from May 3, 2006 through June 30, 2008; (2) up to \$400 million under an existing credit facility through December 9, 2010; and (3) blanket authority for Pinnacle West to guarantee the debt of Arizona Public Service Company ("APS"), Pinnacle West's traditional public utility subsidiary, in the event that at least one nationally recognized statistical rating organization does not rate APS's debt in a rating level of at least investment grade.

Pinnacle West also requests a waiver of the Commission's competitive bidding and negotiated placement requirements at 18 C.F.R. § 34.2.

Docket No. ES06-39-000

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On February 21, 2003, the Commission issued an order announcing four restrictions on all future public utility issuances of secured and unsecured debt.¹ First, public utilities seeking authorization to issue debt backed by a utility asset must use the proceeds of the debt for utility purposes. Second, if any utility assets that secure debt issuances are divested or "spun off," the debt must follow the asset and also be divested or "spun off." Third, if any of the proceeds from unsecured debt are used for non-utility purposes, the debt must follow the non-utility assets. Specifically, if the non-utility assets are divested or "spun-off," then a proportionate share of the debt must follow the divested or "spun-off" non-utility asset. Finally, if utility assets financed by unsecured debt are divested or "spun-off" to another entity, then a proportionate share of the debt must also be divested or "spun off."

A notice of the application was issued on April 21, 2006, and no protests opposing the granting of the requested authorization were filed.

Authorization:

Pinnacle West is authorized to: (1) issue up to \$350 million in equity securities and up to \$350 million in long-term and short-term debt securities during the period from May 3, 2006 through June 30, 2008; (2) up to \$400 million under an existing credit facility through December 9, 2010; and (3) blanket authority for Pinnacle West to guarantee the debt of Arizona Public Service Company ("APS"), Pinnacle West's traditional public utility subsidiary, in the event that at least one nationally recognized statistical rating organization does not rate APS's debt in a rating level of at least investment grade, upon the terms and conditions and for the purposes specified in the application subject to the following conditions:

This authorization is effective as of May 3, 2006 and terminates on June 30, 2008.

The securities are subject to the Commission's restrictions on secured and unsecured debt as outlined above and in the Westar Order.

This issuance of the long-term debt is exempt from the Commission's competitive bidding and negotiated placement requirements at 18 C.F.R. § 34.2.

¹ *Westar Energy, Inc.*, 102 FERC ¶ 61,186, order on reh'g, 104 FERC ¶ 61,018 (2003) (Westar Order).

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Pinnacle West must file a Report of Securities Issued, under 18 C.F.R. §§ 34.10 and 131.43, no later than 30 days after the sale or placement of long-term debt or equity securities.

This authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before this Commission.

Nothing in this letter order shall be construed to imply any guarantee or obligation on the part of the United States with respect to any security to which this letter order relates.

Authority to act on this matter is delegated to the Director, Division of Tariffs and Market Development-West, pursuant to 18 C.F.R. § 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within thirty (30) days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

If you have any questions concerning this letter order, please contact Tina C. Briscoe at (202) 502-8751.

Sincerely,

Steve P. Rodgers, Director
Division of Tariffs and Market
Development-West